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SUBJECT: TEXTILE AND APPAREL STATISTICS AND COMPETITIVENESS PROJECTION

REF: STATE 138090

¶1. Summary: The Bangladesh textile and ready-made garment (RMG) industry has thrived following the end of quotas under the multi-fiber arrangement. Although the industry benefits from U.S. and EU restrictions on Chinese goods, other factors including low labor costs, strong relations with major European and US buyers and a reputation for better than average social compliance have been more significant. The industry continues to invest to remain competitive; however, external factors, especially inadequate power, an underdeveloped natural gas distribution network, an inefficient port and systemic corruption continue to plague the industry and will affect its competitiveness in the medium term. End summary.

Requested Data

¶2. Post is pleased to provide the data requested in paragraph 3 of reftel, together with information on the sources and reliability of the data. All data is based on the Bangladesh fiscal year, which runs from July 1 through June 30.

A) Total Industrial production in FY 2005 was USD 9.6 billion and in FY 2006 was USD 10.3 billion.

B) Total textile production in FY 2005 was 3.0 billion meters and in FY 2006 3.5 billion meters (no data is available based on price). Total apparel production was USD 7.1 billion in FY 2005 and USD 8.7 billion in FY 2006 (both estimated).

C) Textile share could not be compared with the import and export figures. Apparel production was 52% of total import and 82% of total export in FY 2005 and 51% of total import and 83% of the total export in FY 2006.

D) Total manufacturing employment was 5.5 million in FY 2005 and 6.0 million in FY 2006 (estimated).

E) Total textile employment is 500,000 and total apparel employment is 3.0 million (estimated).

¶3. Data sourcing and reliability: Post collected information from the three major industry associations -- Bangladesh Textile Mills Association (BTMA), Bangladesh Garments Manufacturers and Exporters Association (BGMEA) and the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) -- and from the Ministry of Finance, which includes the customs service. Finding current and accurate data is

difficult in Bangladesh because of the unavailability of timely official data, lack of coordination between different agencies, lack of trained workforce in this area, and the long processing time to organize the collect data. The information provided is believed to be the best information available.

Additional Information

¶4. Bangladeshi RMG manufacturers are under continuing pressure from buyers to reduce prices. The sizable increase in both the volume and value of exports results from a significant increase in the volume of exports, despite decreasing price margins. Order volume is higher than in previous years. There is significant new investment by both foreign and domestic companies in new manufacturing capacity.

Some sources estimates one new factory or expansion employing 500 or more workers is added by the industry each week. According to anecdotal evidence, however, Bangladesh's chronic infrastructure and governance problems have prompted some investors to locate new factories in other countries.

¶5. Bangladesh has clearly benefited from US and EU restrictions on certain Chinese apparel exports and many in the industry worry that the removal of those restrictions in 2008 will negatively impact the RMG sector. Other factors, including low labor costs, a relatively skilled labor force, continued investment to improve productivity and a positive reputation for social compliance have been more significant. The government has not imposed nor considered imposing quotas or other restrictions on Chinese textile and apparel products. High tariffs and taxes protect the domestic

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textile industry from international competition and raise costs for domestic textile users, including RMG exporters; however, these barriers are not specifically targeted at Chinese textile products.

¶6. Bangladesh already has some of the lowest labor costs in the global textile and apparel industry. Bangladesh's success in the global market, coupled with rising domestic prices for staples, has created pressure for increased wages.

Wage demands erupted in two-days of civil unrest in May. In response, the government and industry formed a wage board to review wages. Although the wage board recommended a 73% increase in the base minimum wage and increases in the minimum wage for higher skill levels, labor groups, which had sought a 200% increase, were disappointed and continue to agitate for higher wages.

¶7. Chronic problems of infrastructure and governance continue to bedevil the industry (and economic growth generally) and threaten the industry's competitiveness in the medium term. Electricity demand is growing at 8% annually, yet there has been a net loss in generating capacity over the past five years due to lack of new plants and deterioration of the installed base. Operational capacity is estimated at 50%-60% of current demand and rolling blackouts are common. Although manufacturers often have captive power generators or standby diesel generators, high fuel costs and unreliable natural gas supplies increase costs and undermine productivity. Power is expected to be an important issue for elections scheduled for January 2007.

¶8. Bangladesh's knitwear industry, in particular, benefits significantly from EU GSP tariff preferences and, to a lesser degree, from duty free access to the Canadian market. Bangladesh does not enjoy similar tariff preferences in the U.S.; nonetheless, exports to the U.S. of both woven and knitwear products have risen by more than 20%, reflecting Bangladesh's many competitive advantages, especially in low value, high volume products. The BDG and industry continue to press for duty free access under the proposed Trade Act of 2005. Addressing competitiveness issues in Bangladesh,

however, would have a more significant impact on the industry's global competitiveness over the medium term.
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